

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

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SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 PA-01

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FM AMCONSUL PERTH

TO SECSTATE WASHDC 835

INFO AMEMBASSY CANBERRA

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E.O. 11652: N/A

TAGS: ECON, ENRG, EINV, AS

SUBJECT: WEST AUSTRALIAN STATE GOVERNMENT ANNOUNCES PLANS FOR
NEGOTIATIONS ON THE DEVELOPMENT OF THE NORTHWEST SHELF
GAS FIELDS

REF: (A) PERTH'S A-44 NOVEMBER 25, 1974;

(B) PERTH'S A-5 APRIL 7, 1975

SUMMARY: WA PREMIER, SIR CHARLES COURT, ANNOUNCED JUNE 19, 1975
THAT HIS GOVERNMENT WOULD BEGIN NEGOTIATIONS IMMEDIATELY WITH
BURMAH OIL, ITS NORTHWEST SHELF PARTNERS AND OTHER INDUSTRIES
THAT WOULD FORM PART OF THE OVERALL PLAN FOR USE OF SHELF GAS
IN DEVELOPMENT OF THE PILBARA WITHOUT WAITING ANY LONGER FOR
THE COOPERATION OF THE GOVERNMENT OF AUSTRALIA (GOA). HOWEVER,
IT SEEMS HIGHLY DOUBTFUL THAT THE WA GOVERNMENT WOULD BE ABLE TO
ARRANGE THE NECESSARY FINANCE ON INTERNATIONAL MARKETS WITHOUT
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THE APPROVAL AND COOPERATION OF THE GOA. SIR CHARLES STATED

THAT FAILING GOA APPROVAL, WA MAY HAVE TO "GO BEYOND BOUNDS OF TRADITIONAL COMMONWEALTH/STATE FINANCIAL RELATIONSHIPS". END SUMMARY.

1. BACKGROUND - DEVELOPMENT OF THE NORTHWEST SHELF GAS FIELD HAS BEEN STALLED FOR MORE THAN TWO YEARS BECAUSE OF THE STATE/ FEDERAL LEGAL DISPUTE OVER OFFSHORE SOVEREIGNTY. (THE HIGH COURT IS EXPECTED TO HAND DOWN A DECISION ON SEAS AND SUB-MERGED LANDS ACT IN LATE 1975 OR NEARLY 1976). HOWEVER SINCE DEVELOPMENT OF THE FIELDS REQUIRES A FIVE TO SIX YEAR LEAD TIME AND THE STATE WILL BE FACING A SERIOUS ENERGY SHORTAGE BY THE EARLY 1980'S, WA GOVERNMENT FEELS IT MUST ACT WITHOUT FURTHER DELAY UNDER EXISTING FEDERAL/STATE LEGISLATION WHICH MAKES THE STATE MINISTER FOR MINES THE "DESIGNATED" AUTHORITY WITH POWERS TO GRANT OFFSHORE EXPLORATION AND PRODUCTION LICENSES AFTER PRESCRIBED "CONSULTATIONS" WITH FEDERAL GOVERNMENT. ACCORDING TO CALCULATIONS OF STATE ENERGY COMMISSION (SEC), EARLIEST POSSIBLE START IS REQUIRED IN ORDER TO DELIVER GAS AT PRICES COMPETITIVE TO IMPORTED OIL.

2. NEGOTIATIONS - WA MINISTER FOR MINES, FUEL AND ENERGY ANDREW MENSAROS, TOLD THE CONSULATE THAT THE FIRST STEP IN NEGOTIATIONS WILL BE AN APPROACH BY THE WA GOVERNMENT TO THE BURMAH'S SHELF PARTNERS (WOODSIDE-BURMAH, SHELL, BP AND CALIFORNIA ASIATIC) TO DETERMINE WHETHER THEY WILL APPLY TO THE STATE FOR A PRODUCTION LICENSE. SHOULD APPLICATION BE MADE AND APPROVED (THE PARTNERS HAVE UNTIL DEC 1975 TO FILE) THEN A PRICE FOR THE GAS CAN BE SET AND FINANCING SOUGHT. MENSAROS FIRMLY BELIEVES THAT THE STATE HAS SUSTAINABLE LEGAL BASIS TO PROCEED WITH NEGOTIATIONS BUT WAS VAGUE ON FINANCING ARRANGEMENTS WHEN PRESSED FOR DETAILS, EXCEPT TO INDICATE THAT SEC MIGHT SEEK FINANCE FOR A LARGE PROPORTION OF PROJECT. HE STATED THAT OFFSHORE FUNDS WOULD BE NECESSARY AND INDICATED THAT THE STATE WOULD PROBABLY BUY THE MAJORITY OF TOTAL PRODUCTION, ESTIMATED AT 700 MILLION CUBIC FEET PER DAY FOR FIRST STAGE.

3. PROJECT - MENSAROS ENVISAGES, INITIALLY, ONE OFFSHORE PRODUCTION PLATFORM (AT NORTH RANKIN FIELD), TWO UNDERSEA PIPELINES TO SHORE INSTALLATIONS AND AN ONSHORE PIPELINE FROM DAMPIER TO PERTH WITH TOTAL ESTIMATED COST OF USDOLS 1.3 LIMITED OFFICIAL USE

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BILLION. ALL GAS PRODUCED WOULD BE USED IN STATE DIVIDED ROUGHLY IN THIRDS TO: PERTH METROPOLITAN AREA, PETROCHEMICAL PLANTS TO BE ESTABLISHED IN PILBARA DISTRICT (INCLUDING PETROLEUM REFINERY) AND TO PILBARA IRON ORE PRODUCERS FOR DIRECT REDUCTION AND PELLETIZING OF ORE.

4. CHAIRMAN AND MANAGING DIRECTOR OF BOCAL PTY LTD, HARRY JOYNT, SHELF PARTNERS MANAGING COMPANY, TOLD CONSULATE THAT

VENTURE PARTNERS WOULD BE MEETING IN SAN FRANCISCO ON JULY 9 TO DISCUSS WHETHER APPLICATION FOR A PRODUCTION LICENSE WOULD BE MADE. HE ADDED THAT HE PERSONALLY FELT THE PARTNERS WOULD APPLY SINCE SUCH AN APPLICATION WOULD PROBABLY "REINFORCE" PARTNERS LEGAL TITLE TO THE FIELD. JOYNT, HOWEVER, EXPRESSED DOUBTS WHETHER THE PARTNERS AND STATE WOULD BE ABLE TO RAISE THE NECESSARY FINANCE UNDER CURRENT DUBIOUS LEGAL CIRCUMSTANCES BUT NOTED THAT UNDER EXISTING LEGISLATION WA GOVERNMENT CAN LEGALLY REQUIRE THE PARTNERS TO NEGOTIATE.

5. BRUCE KIRKWOOD, HEAD SEC, REFLECTED VIEWS OF PREMIER THAT ESSENCE OF PREMIER'S MOVE IS ECONOMIC NECESSITY TO "GET BALL ROLLING" ON ASSUMPTION THAT REGARDLESS OF PROBLEMATIC LEGAL SITUATION, FEDERAL GOVERNMENT WILL FIND IT POLITICALLY DIFFICULT TO UTILIZE ITS LEGAL POWERS TO BLOCK THE PROJECT. KIRKWOOD INDICATED SEC WITH WA GOVERNMENT SUPPORT MIGHT HOPE TO RAISE FINANCE FOR SOME 60 PERCENT OF TOTAL INITIAL COST OF WHICH SIZEABLE PROPORTION MIGHT COME FROM AUSTRALIAN FUNDS OWNED BY FOREIGN COMPANIES.

6. COMMENTS - INTERNATIONAL FINANCING TO DEVELOP THE SHELF IS CERTAINLY NECESSARY SINCE AT BEST LESS THAN HALF CAPITAL REQUIRED COULD BE RAISED IN AUSTRALIA. SINCE ALL INTERNATIONAL BORROWINGS MUST BE APPROVED BY THE AUSTRALIAN LOAN COUNCIL AND FOREIGN INVESTMENT CAN BE CONTROLLED BY THE RESERVE BANK THE GOA COULD BLOCK THE PROJECT IF IT SO DECIDED. ACCORDINGLY, THE ANNOUNCEMENT BY SIR CHARLES CAN BE SEEN AS A MOVE TO LAUNCH A PROJECT WHICH THE GOA WOULD FIND POLITICALLY DIFFICULT TO OPPOSE. SINCE HE PLAYED SAME GAME IN EARLY 1960'S WITH FORMER PM ROBERT MENZIES OVER IRON ORE EXPORTS AND WON, SIR CHARLES UNDOUBTEDLY IS ENCOURAGED TO TRY AGAIN FOLLOWING RECENT FAILURE TO PERSUADE WHITLAM TO COOPERATE. NO CLEAR REACTION BY GOA HAS YET BEEN MADE PUBLIC.
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7. TEXT OF WA GOVERNMENT PRESS RELEASE AND PERTINENT NEWS-PAPER STORIES BEING AIR POUCHED. FURTHER DEVELOPMENTS WILL BE REPORTED.
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